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ABSTRACT

A study examined effects of early retirement plans (ERP) at Canadian Universities. In response to current conditions within Canadian universities and a Canadian Supreme Court decision upholding mandatory retirement requirements, many universities have sought to encourage faculty retirement through ERPs. In order to study the cost of such programs, a survey was distributed to 58 Canadian universities. Twenty-seven institutions responded and of those 14 (24 percent) had ERP in place and operating long enough to participate in the study. Although this number was low, the institutions were representative. Results indicated that only one institution found the plan to be of greater financial cost than anticipated. Only two institutions found their ERP less of a financial burden than initially anticipated due to few faculty opting for the more expensive options and performance of investment being greater than anticipated. Few institutions were able or willing to specifically state the added expense of their ERP but those that did listed the following as added expenses: (1) payroll taxes; (2) use of savings for increased operating expenses; and (3) potential cost in university pension plan. Overall, most respondents believed that the predicted costs and savings of early retirement plans were borne out in practice. Six references and an appendix containing four sample survey questions are included. (JB)

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Early Retirement: The Cost to Canadian Universities

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Early Retirement: The Cost to Canadian Universities

Canadian university policies of mandatory retirement have undergone challenges with mixed effects. In four provinces -- New Brunswick, Manitoba, Alberta, and Quebec -- provincial laws have abolished mandatory retirement. In the provinces of Ontario and British Columbia, the University of Toronto, Laurentian University, York University, the University of Guelph, and the University of British Columbia, placed the decision in the authority of the Supreme Court of Canada. The Canadian university community awaited a ruling of the Supreme Court that would resolve or at least give definitive direction to the issue of mandatory retirement. On December 6, 1990 the direction came. The Supreme Court of Canada upheld the concept of mandatory retirement.

Despite the obvious controversey that the decision of the Supreme Court will cause especially in the noted universities in the provinces of Ontario and British Columbia, faculty members do eventually retire. "[The Association of Universities and Colleges of Canada] estimated that between 25 and 30 per cent of today's professors -- as many as 11,655 people -- will have to be

replaced in the next decade as academics hired during the expansion of the 1960s and early 1970s start to retire" (Polanyi, 1989, p. A14). For the time being, universities see the adoption of early retirement plans (ERP) the way out of their problem. ERP by definition[1] are designed to facilitate and encourage faculty retirement at an earlier age than they would normally do so.

A survey was distributed to 58 Canadian universities for the purpose of determining whether this action by university administrators is having undesirable consequences. Twenty-seven institutions responded; nine indicated they neither had nor have an early retirement program for faculty; two only recently put in place a plan therefore considered it premature to respond to the impact of the plan; and two felt that their resources would not permit their participation in the survey. Thus, fourteen (24%) of the surveyed universities participated in the study. These institutions are however located throughout the regions of Canada and their responses therefore do provide us a Canadian perspective of the impact of early retirement plans at the university level.

This impact in terms of the actual costs and savings of the

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[1]See for example Chronister and Trainer (1985), Weiler (1981), Renner (1988), Mitchell (1981), Hanson and Merrill (1987).

plan was investigated (see Appendix for sample questions asked). In only one instance was the early retirement plan judged as having a 'greater' financial cost than initially anticipated. The factors identified as the cause were:

*"lack of participation from academic staff to the same extent as support staff"

*"some replacements are being made at higher salaries than expected"

*"1st order not financial but faculty renewal and productivity; space, start up dollars for active persons"

At the same time, only two institutions were finding their early retirement plan less of a financial burden than initially anticipated. The factors identified for this occurrence were:

*"Very few faculty are opting for the most costly scenario -- i.e., retirement at age 55 with 2 years salary and enhanced pension."

*"The performance of our investments in the market is greater than anticipated."

Estimated savings from early retirement was:

*"net from 1989 plan window was estimated at approximately $5,000,000, of which over 70% was faculty in origin"

*"There are no savings in the very short term, but the savings appear in the medium term (two to ten years). In the long-term (more than ten years) there are no savings."
"An average situation might be as follows:
Faculty member retires four years early, at an annual salary of $68,000.
Cost of one-time payment, say, $40,000
Replacement cost $35,000
Savings per year $33,000

Pay-out time - 1.2 years
Net savings over four years - $92,000.
(Assuming that the annual increases in the original salary are roughly equal to the annual increases in the replacement salary.)"

*"to date there are only debts, savings are used to retire the deficit. It will be five years before the deficit is eliminated. This is larger than our 3 year projection. For those who retired 1-5 years early, there are little savings. Given the fact that some would have retired at 65 and all savings from that retirement would accrue to the University, the plan can not be viewed as a financial boon to the University for some time, if in fact at all."

*"$100,000"

*"replacements at 1/2 salary"

*"June 30, 1984 - December 31, 1989
$1,375,000 (faculty)
June 30, 1984 - June 30, 1987
535,718 (faculty)
June 30, 1988 - December 31, 1989
1,000,439 (faculty)
June 30, 1984 - December 31, 1989
(161,076) (admin)"

Few institutions were able or willing to state the added expense of their early retirement plans. Those that did respond listed the following as an added expense:

*"Payroll tax to fund the reserve."

*"normal savings via retirements are usually used to fund increased operating expenses which are always higher than increased revenue from tuition and the provincial government. e.g. salary increases, increments are 3% per year, travel, p.d.a., equipment"

*"potential cost in university pension plan"

Clearly institution success has varied. Overall, most respondents believed that the predicted costs and savings of early retirement plans were borne out in practice. Although the number of institutions involved in the study was low, the institutions were representative. The fact that early retirement continues to be an active component of Canadian university administrators' strategies to address concerns with an aging professoriate indicates that the findings can be more generally applied.

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Appendix

Sample Survey Questions

1. Is your present or past early retirement plan having a greater financial cost upon the university than initially anticipated?
   Yes__ No __
   If yes, what are the factors that are causing this effect?

2. Is your present or past early retirement plan having a lesser financial cost upon the university than initially anticipated?
   Yes__ No __
   If yes, what are the factors that are causing this effect?

3. Is your present or past early retirement plan having the financial cost upon the university than initially anticipated?
   Yes__ No __
   If yes, what are the factors that are causing this effect?

4. What do you estimate the approximate savings or added expense from early retirement to be?